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SUBJECT: ITALY: AN INTERLUDE IN THE UNENDING GOVERNMENT REVIEW

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SUMMARY AND COMMENT

1. (SBU) Italy's governing coalition may have reached a moment of respite from disagreements, which have plagued it since the spring elections. The interlude may not endure long, but as one contact joked, "Berlusconi would certainly make history if his were the first government to fall during summer vacation." The unwillingness of the leaders of the coalition partners to assume actual positions of power within the Government is indicative of their intent to maintain a distinct image and their right to voice dissent, thereby seeking to enhance their standing before their own electorate. (Prime Minister Berlusconi may occasionally wish he had the same luxury of standing on the outside calculating where to gain the greatest advantage.)

2. (SBU) It is a somewhat gloomy picture for an ambitious prime minister, but the Government is intact, and indeed ministerial changes were few. Those willing to bet that the coalition will last until 2006 are fewer than before, and more analysts contemplate the possibility of national elections tacked onto the 2005 regional vote. But many remain convinced that this Government will stick together for its full term, whether because some parties (Northern League on the right, and probably most of the opposition, despite its current swagger) are unready to go to the polls; because Berlusconi is determined to make history by leading the first post-war government to serve a full term; or out of a sense of responsibility to its electorate. On issues of greatest importance to the U.S. -- chiefly support for Iraq reconstruction -- we expect no diminished support from this ally. On issues vital to Italy's own future, however, decision-making may be slow and tortured -- or simply inevitably postponed. END SUMMARY AND COMMENT.

THE CENTER-RIGHT'S UNENDING VERIFICA

3. (SBU) The July 16 appointment of technocrat Domenico Siniscalco to replace Giulio Tremonti as Finance Minister (septel), and the expected announcement that Northern League Coordinator Roberto Calderoli will become Minister of Reform after League leader Umberto Bossi's resignation, bring a truce to the battle over "internal review" in the Berlusconi Government in the wake of June elections. We would not suggest that the "verifica" is over; we rather expect it to be the permanent state of being for the remainder of this Government. However, we do not for the time being foresee further ministerial changes.

4. (SBU) The government partners who gained the most (in relative terms) in the recent elections, National Alliance (AN) and Union of Christian Democrats of the Center (UDC), had the chance to obtain major positions of power in the government, with AN President Fini apparently in line for the Finance Ministry and UDC Secretary Follini reportedly offered virtually any ministry he wanted. Instead, both leaders remain "outside," part of the government, but not heading a ministry that would tie them directly to its policies -- making perennial carping an easier option. Northern League (Lega) Secretary Bossi, either in disgust at his partners' "betrayal" of federalist reforms he favors or due to ongoing illness and weakness, has joined them, leaving his position as Minister for Reforms in order to assume a seat in the European Parliament. (COMMENT: We tend to think Bossi's resignation was prompted primarily by his illness, but the party took advantage of the announcement to drive home a point to AN and UDC. Likewise, Lega leaders were probably politically reticent to tell voters that Bossi was too weak to continue serving in the Government. A final calculation may consider that the League's cherished devolution program is facing perhaps its final crunch, and the party needs a strong, active leader to manage the program to conclusion. END COMMENT.)

WHY REJECT POLITICAL SPOILS?

15. (SBU) It is the complaint and review process that serves the smaller coalition partners, more than "winning" an argument. Italy's parties are positioning themselves for the next elections (whether held separately or simultaneously). Both regional and national elections favor coalition building, as the more parties in a coalition, the

more votes that coalition receives. To retain its electorate, a party must remain visible and distinguish itself from both its partners and its competitors. Criticism, even of its own Government's programs, provides visibility for party leaders. It is one way to convince voters that their party, and their party's leader, count in the government and are bringing them tangible benefits.

16. (SBU) Fini gained a great deal from the maneuvering. He got rid of Tremonti, who pushed programs which at best did not help AN's electoral appeal, and in some cases may have hurt the party's standing. (AN has a strong populist faction that relies on government employment and benefits.) With Tremonti sidelined and Bossi physically weakened, Fini perhaps shaped a "Fini-Berlusconi Axis" to replace the "Northern Triangle" of Berlusconi-Bossi-Tremonti, gaining a more visible role in the process and ensuring (at least for now) that Berlusconi will consult him before making important decisions.

17. (SBU) Follini, for all his recalcitrance, seemingly gained little from his stalling. He may have overplayed his hand, but we speculate that he never intended to accept a government ministry. His goal all along was to prove himself to his electorate and gain visibility. He also wanted to remind Berlusconi and his other Government partners not to take his small centrist party for granted. His eventual rejection of the European Parliament seat he won in the elections tends to confirm his intention of remaining the semi-loyal ally, quick to criticize government policies, but not prepared to quit the coalition.

18. (SBU) A more sinister theory suggests a Fini-Follini axis to weaken Berlusconi in the run-up to the next elections, paving the way for a different coalition. Such a plan, however, bumps into problems of both numbers and compatibility. Berlusconi and his Forza Italia (FI) are the bridge between AN and UDC, which come from very different backgrounds even if their approaches occasionally align. If one assumes FI would evaporate without Berlusconi -- possible, but not guaranteed -- then FI voters would indeed likely gravitate toward these two parties, as did center-right protest votes in the last elections. But a center-right coalition without the Berlusconi glue would be tenuous at best; neither Fini nor Follini (nor any other center-right leader currently on the horizon) yet demonstrates Berlusconi's charisma and authority. Finally, the dream of a "true center" of UDC and other former Christian Democrats remains mathematically unlikely without significant changes to Italy's electoral law.

WHERE IS THE GOVERNMENT NOW?

19. (SBU) The Government remains, with all partners continuing to swear allegiance. None was willing to push to the brink and create a true government crisis (contrary to opposition declarations), although all, to some degree, have contributed to an image of an emasculated coalition limping through to an end, whether after five years or sooner. Berlusconi remains strong enough, and indeed the only one strong enough, to keep the allies together, although his partners have gone to great lengths to prove to him that he needs them as much as they need him. On international policies, particularly those like Iraqi support of greatest importance to the U.S., we expect little change. On domestic policy, however, the Government faces a tough road. It must pass some kind of economic reform to have any hope of maintaining its (joint) electorate, but with each partner angling to protect its own vested interests, compromise to reach a meaningful end is unlikely, whether on devolution of power to the regions, tax and spending cuts, or pension reform. Lots of bickering and policies achieving only the lowest common denominator seem the most likely outcomes.

FINAL COMMENT

110. (SBU) To win elections, and more importantly, to form a government, Italian parties have to create coalitions that can run a campaign with some degree of unity. The center-right is showing anything but and has damaged itself significantly -- if not yet irrevocably -- in the process. Partners should be aware that, outside a coalition, they have everything to lose and nothing to gain; the League's own experience stands as example. For now, however, the opposition center-left (with the luxury of being out of

power) appears more unified and coherent than the center-right.

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